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US EPA ‘lowers ambitions’ to chagrin of biofuel producers in final RFS rule for 2023-2025

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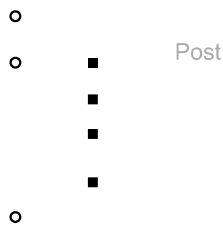
Highlights

Raises blending requirement to 22.38 bil gallons by 2025

Lessens expected US oil imports by 130,000-140,000 b/d

Biomass-based diesel mandate well below anticipated supplies

Oil sector maintains targets are unachievable



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The US Environmental Protection Agency June 21 finalized regulations to steadily raise the amount of renewable fuel that US refiners must annually mix with gasoline and diesel over the next three years, lowering some blending requirements below its December proposal following comments from stakeholders.

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The new rule tied to the EPA's Renewable Fuel Standard program left the biofuel and farming community deeply disappointed as it pulled back on conventional biofuel blending targets, but it also failed to appease the oil lobby which maintained that the targets were still unachievable.

The final rule requires refiners to blend 20.94 billion gallons of renewable fuel in 2023, up from the 20.63 billion gallons required under the 2022 renewable volume obligation (RVO). It then boosts the total renewable fuel obligation to 21.54 billion gallons in 2024 and to 22.33 billion gallons in 2025.

Those RVOs represent a 120-million-gallon increase for 2023 from the [December proposal](#) but a 330 million gallon and 350 million gallon decrease from what was proposed for 2024 and 2025, respectively.

The new biofuel blending requirements maintain the implied ethanol blending level for all three years at 15 billion gallons, reversing the proposed plan to increase that level to 15.25 billion gallons in 2024 and 2025.

The EPA set the 2023 biomass-based diesel mandate at 2.82 billion gallons, up 2.2% from the 2022 mandate and in line with the agency's initial proposal. The mandates for 2024 and 2025 were increased modestly from their December proposal by 150 million gallons to 3.04 billion gallons for 2024 and by 400 million gallons to 3.35 billion gallons for 2025.

US EPA finalizes steady increases to biofuel blending mandates (billion gallons)

	2019	2020	2021	2022	2023	2024	2025
Cellulosic biofuel	0.42	0.51	0.56	0.63	0.84	1.09	1.38
Biomass-based diesel	2.1	2.43	2.43	2.76	2.82	3.04	3.35
Advanced biofuel	4.92	4.63	5.05	5.63	5.94	6.54	7.33
Renewable fuel	19.92	17.13	18.84	20.63	20.94	21.54	22.33
Supplemental standard	n/a	n/a	n/a	0.25	0.25	n/a	n/a
Conventional ethanol	15	12.5	13.79	15	15	15	15

Source: US Environmental Protection Agency

The final rule also pumps the brakes on [expanding the RFS](#) to electric vehicle manufacturers.

The EPA is continuing its plan to restore 500 million gallons of illegally waived RFS requirements from the 2016 RVO — with that volume being added in the form of a 250-million-gallon "supplemental obligation" on top of the 2023 blending mandate. A similar supplemental was added to the 2022 mandate.

The EPA estimates that the new RFS requirements will lessen US dependence on foreign oil sources by roughly 130,000 to 140,000 b/d over the 2023-2025 timeframe. The anticipated energy security benefits over that period are valued between \$173 million and \$192 million per year, the agency said.

RIN volatility

The American Fuel & Petrochemical Manufacturers as well as the Fueling American Jobs Coalition, which represents independent refiners, fuel retailers and union workers, both argued that the biofuel blending requirements remained too high and risked exacerbating domestic refining capacity losses.

"It sets ethanol blending levels nearly a billion gallons more than the federal government's projected transportation fuel demand, ensuring [Renewable Identification Number (RIN)] prices will stay astronomically high, benefitting multinational oil companies, Wall Street traders, and other speculators at the expense of independent refiners," the coalition said in a statement.

RINs are tradable credits the EPA issues to track production and use of alternative transportation fuels. For corn-based ethanol, one gallon of ethanol yields one RIN.

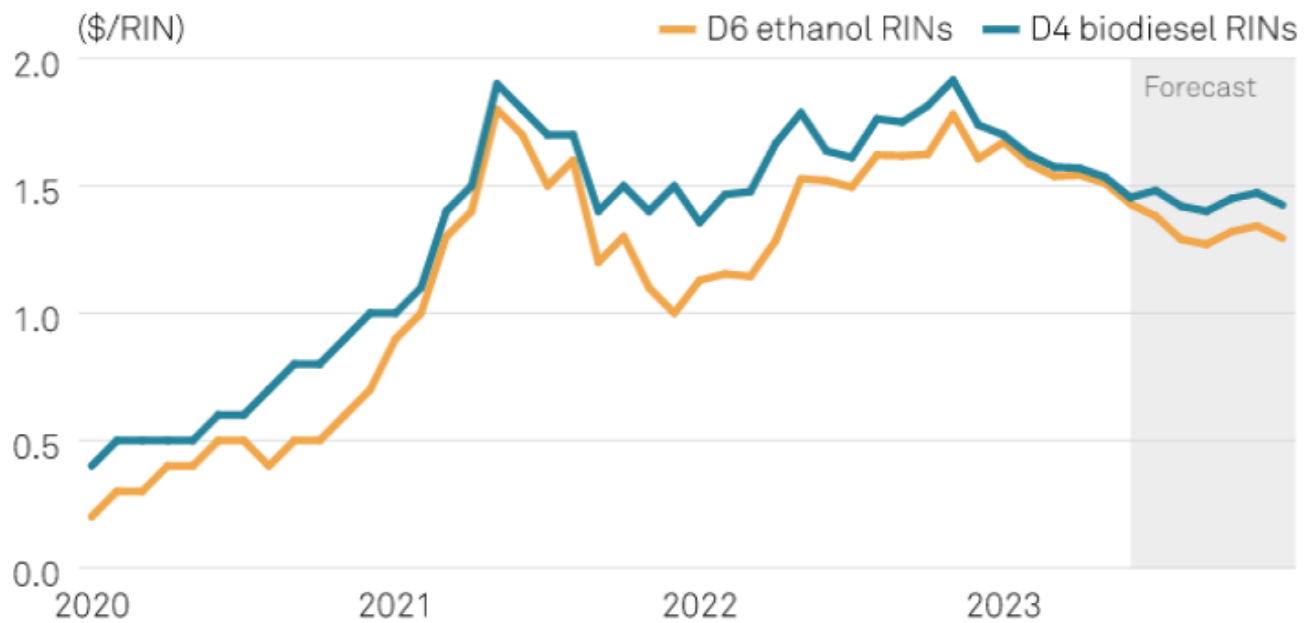
Platts on June 20 assessed D6 ethanol RINs for 2023 at \$1.4575/RIN and 2022 D6 RINs at \$1.505/RIN, both 3 cents higher than the prior trading day. Biomass-based diesel D4 RINs for 2023 and 2022 both were assessed 2.5 cents higher at \$1.4825/RIN and \$1.605/RIN June 20.

Platts is a unit of S&P Global Commodity Insights.

D4 RINs prices averaged \$1.45/RIN in June while D6 RINs prices averaged \$1.43/RIN after both spending most of 2023 averaging between \$1.50-\$1.70/RIN, according to Platts assessments.

S&P Global forecasts D4 RINs prices to average \$1.44/RIN and D6 RINs prices to average \$1.32/RIN in the second half of 2023.

US refiners contend with volatile RFS compliance costs



Source: S&P Global Commodity Insights

The coalition has long argued that independent refiners are forced to spend more on RINs than on payroll, benefits, utilities and maintenance expenses combined. The group contends that the RFS adds an estimated \$30 billion to fuel costs and 20 to 30 cents/gallon to prices at the pump.

The final RFS rule seeks to address stakeholders' comments on the economic impacts of the program, including regulatory changes with an eye on easing the volatility in RFS compliance costs for merchant refineries.

The agency, for instance, will meet with the Commodity Futures Trading Commission within 45 days to ensure that existing agreements are sufficient to monitor RIN trades for potential market manipulation.

"In addition, EPA has identified a clear set of market indicators – from the costs to consumers of transportation fuel to the stability of fuel supplies and domestic refining assets – that it will continue to monitor in real time to ensure successful implementation," the agency said.

Missed opportunity

However, biofuel groups expressed disappointment as well as shock over the direction the EPA took in the final rule.

"The RFS was intended to drive continual growth in all categories of renewable fuels well beyond 2022; instead, today's final rule flatlines conventional renewable fuels at 15 billion gallons and misses a valuable opportunity to accelerate the energy sector's transition to low- and zero-carbon fuels," Renewable Fuels Association President and CEO Geoff Cooper said.

"EPA's decision to lower its ambitions for conventional biofuels runs counter to the direction set by Congress and will needlessly slow progress toward this administration's climate goals," Emily Skor, CEO of ethanol group Growth Energy, said. "We should be expanding market opportunities for higher blends like E15, not leaving carbon reductions on the table."

Despite edging up biomass-based diesel and non-cellulosic advanced volumes each year, the final rule continues to undercut biodiesel and renewable diesel capacity, given new investments in production capacity and distribution infrastructure, according to Clean Fuels Alliance America.

"Worst of all, EPA ignores the hundreds of millions of gallons of biodiesel, renewable diesel and sustainable aviation fuel generated in the first half of 2023," said Kurt Kovarik, Clean Fuels' vice president of federal affairs.

He pointed to the EPA's own public data, which showed a more than 30%, or 400 million gallon, uptick in biomass-based diesel production in the first five months of 2023 compared with a year ago. Further, the Energy Information Administration has projected US biodiesel and renewable diesel output to increase by more than 800 million gallons in 2023 and 900 million gallons in 2024, whereas the final RFS rule increases mandates for these fuels by only 590 million gallons over the three-year period.

Iowa Renewable Fuels Association executive director Monte Shaw noted that the biomass-based diesel RVO for 2025 appears to be less than the market will actually use this year.

"So not only does the final rule fail to promote advanced biofuels like biodiesel, any advanced blending credits generated above the low RFS blending level will spill over into the conventional market to displace ethanol," Shaw said. "It's a lose-lose situation."

The National Association of Truckstop Operators and SIGMA, a fuel marketers association, expressed concern that fuel retailers considering investing in biofuel blending infrastructure may not be rewarded under the new mandates, and that petroleum refineries that were considering converting to renewable fuel facilities would now be less likely to do so.

"It is particularly perplexing that EPA is not doing all it can to maximize investment in lower-carbon renewable diesel and biodiesel for heavy-duty trucks," David Fialkov, executive vice president of government affairs for both NATSO and SIGMA, said. "Viewed in conjunction with the agency's recent [proposed tailpipe emission standards](#), it is now clear that the Biden administration is dangerously overestimating the speed at which the country will be able to transition to zero emission vehicles, and at the same time underestimating the country's desire to consume lower-carbon liquid fuels in the meantime. Anyone serious about reducing transportation emissions should find this disconnect extremely troubling."

EPA punts on eRINs

Biofuel and oil groups found one area of agreement, with both sides applauding the EPA's halt, albeit temporary, to introducing eRINs into the mix.

The agency's December proposal envisioned eRINs that would be generated for electricity made from renewable biomass that is used for transportation fuel. But stakeholders and some Republican lawmakers voiced concerns over how the eRINs framework would work and whether the EPA even had the authority to make such changes to the RIN generation structure.

"Refiners are pleased to see that EPA has chosen to abandon its unlawful attempt to turn the RFS — a liquid fuel program designed to promote US energy independence — into yet another nine-figure government subsidy program for electric vehicles," AFPM President and CEO Chet Thompson said. "eRINs do not belong in the RFS and shouldn't be resurrected."

IRFA's Shaw agreed but said this "one bit of good news in the final rule appears to be short-lived," as he heard that the agency intends to rework and repropose the eRINs scheme later this year.

"I hope this is not true," Shaw said. "The Biden administration has done quite a bit to promote EVs. They do not need to electrify the one policy designed to allow low-carbon liquid fuels a foothold in the marketplace."

The EPA said June 21 that it would "continue to work on potential paths forward for the eRIN program, while further reviewing the comments received on the proposal and seeking additional input from stakeholders to inform potential next steps on the eRIN program."



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